U.S. Economic Comment

- U.S. economy: losing momentum

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A Developing Slowdown

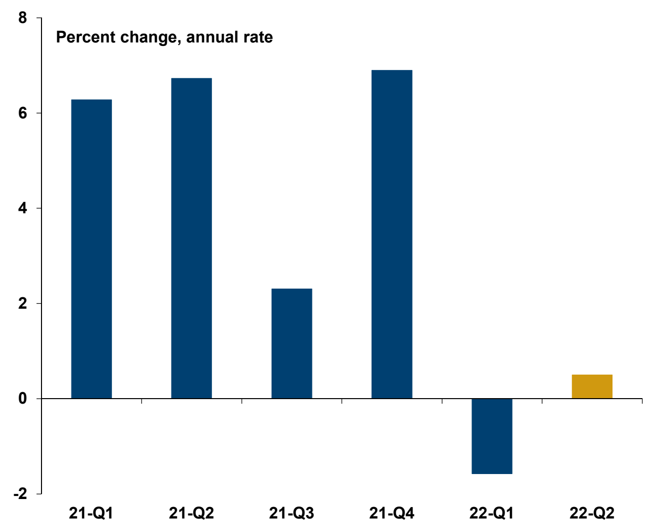
The initial publication of a decline in first quarter GDP in April was not especially troubling, as the drop was concentrated in inventory investment and net exports, two components that often move erratically. Other sectors held up well, as shown by growth of 3.7 percent in private final demand (consumer spending, residential construction, and business fixed investment). Revised GDP data published on June 29 were less comforting, as growth of private final demand now stands at 3.0 percent, with consumer spending and residential construction showing less vigor (consumer spending up 1.8 percent versus an initial estimate of 2.7 percent; residential construction up 0.5 percent versus 2.1 percent).

Consumer spending and residential construction have slipped further so far in the second quarter. Real consumer expenditures fell 0.4 percent in May, and figures for the first two months of the quarter suggest that annual growth of consumer expenditures in the GDP accounts will be less than one percent. Construction figures published on Friday showed only a modest increase residential building, which is likely to translate to a sizeable decline after adjusting for inflation. A drop in brokerage commissions because of slow home sales also will restrain growth in the housing sector.

Business fixed investment seems to be shifting gears in the second quarter. Shipments of capital goods other than aircraft grew only modestly in April and May, which will most likely translate to a drop in real terms and lead to a decline in outlays for equipment. Prospects for equipment outlays beyond Q2 do not seem bright, as new orders for capital goods have started to tilt downward after adjusting for inflation (chart, next page). Moreover, given the uncertain economic outlook, businesses most likely will be reluctant to undertake construction projects, which will prolong the downward trend in business investment in structures (down in nine of the past 10 quarters).

We suspect that inventory investment will make another negative contribution to GDP growth in the second quarter. We have taken note of press reports suggesting that some major retailers have accumulated more inventories than desired, and real stocks of goods relative to sales at general merchandise stores have jumped recently (chart, next page). This increase alone is not alarming, as general merchandise inventories are a small share of the total, but manufacturers, wholesalers, and other retailers will probably wish to manage inventories cautiously in a slowing economic environment.

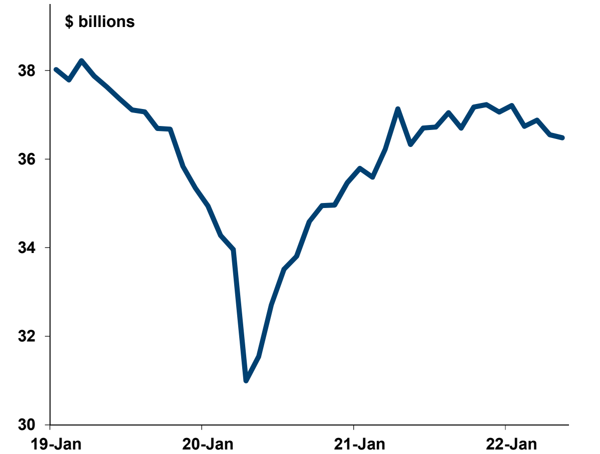
GDP Growth*



** The reading for 2022-Q2 (gold bar) is a forecast.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

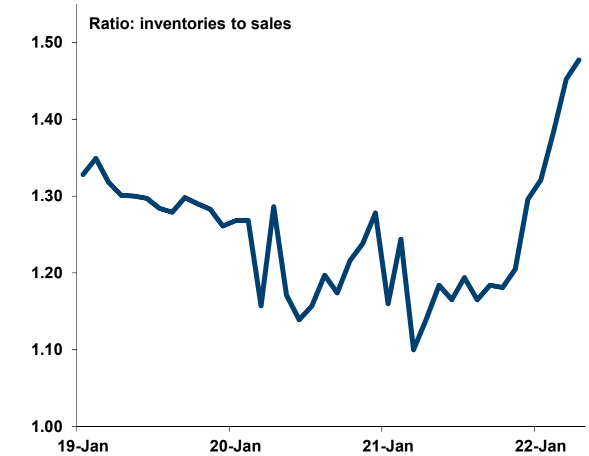
Real Orders for Durable Goods*



** New orders for nondefense capital goods excluding aircraft adjusted for inflation using the Final Demand Private Capital Equipment component of the PPI.*

Sources: U.S. Census Bureau and Bureau of Labor Statistics via Haver Analytics; Daiwa capital Markets America

Real Inventory/Sales Ratio: Gen. Merch. Stores

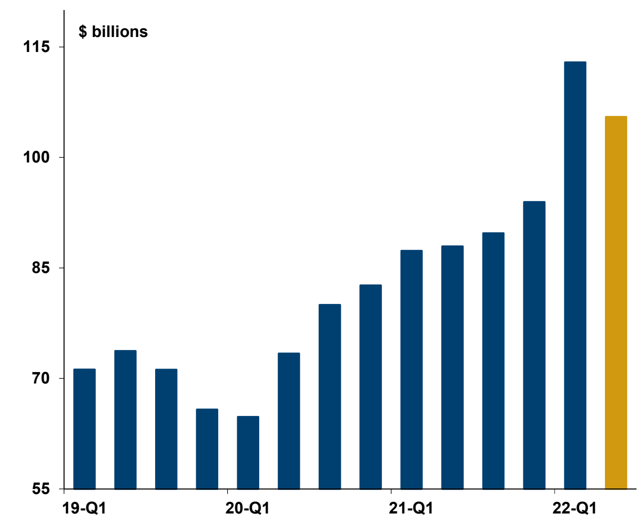


Source: Bureau of Economic Analysis via Haver Analytics

The trade sector is likely to make a sizeable positive contribution to economic growth in the second quarter, with results through May suggesting that net exports could add approximately two percentage points to GDP growth. However, this represents only a partial offset to a drag of 3.2 percentage points in the first quarter. For the first half of the year, international trade is likely to be a decidedly soft spot for the U.S. (note the marked net widening in the deficit in the chart to the right). Trade prospects do not seem bright, as slow global growth and a firm foreign exchange value of the dollar will constrain exports.

All told, available data on the various components of GDP suggest a soft performance in the second quarter. At this point we would look for only a modest advance (less than one percent), and another decline is conceivable.

Real Goods Trade Deficit*



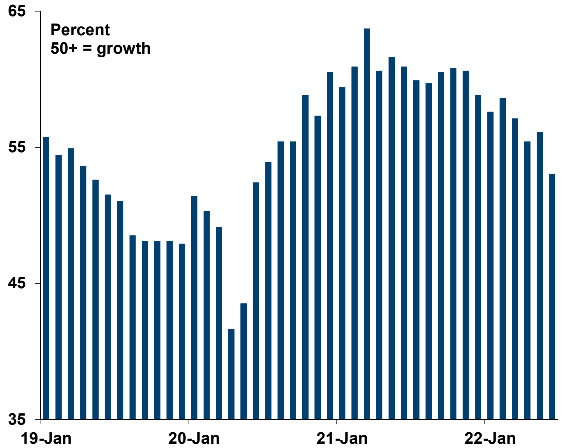
** Quarterly averages of monthly data. The reading for 2022-Q2 (gold bar) is the average of the monthly deficits for April and May.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Other recent economic statistics that do not feed directly into the calculation of GDP also are flashing warning signs. The ISM index has declined in four of the past six months, with the drop of 3.1 index points in June the largest retreat in this string (chart; next page, left). The level of the index stood at 53.0 in June, an unimpressive read. The new orders and employment components were below 50, signaling contraction.

Initial claims for unemployment insurance remain low by historical standards, but they have climbed in recent weeks. After easing in March and April to levels seldom seen, claims have climbed into the upper portion of the range just before the onset of the pandemic. Claims are not high enough to be thinking of recession, but they suggest that the labor market has lost some of its sharp edge (chart; next page, right).

ISM Manufacturing Index



Source: Institute for Supply Management via Haver Analytics

Initial Claims for Unemployment Insurance

Source: U.S. Department of Labor via Haver Analytics

Implications for Monetary Policy

The signs of slower economic activity have been striking, but we would not alter our near-term view on policy changes from the Federal Open Market Committee. We would continue to look for an increase of either 50 or 75 basis points in the federal funds rate at the July 27 meeting. Inflation will not be easily squeezed from the economy, and comments from Chair Powell indicate that he is seeking slower growth and will tolerate a recession in order to bring inflation back to the Fed's target of two percent. Policy is currently accommodative, and most officials would probably prefer to be in a neutral or slightly restrictive position at this point.

In the longer term, if the economy is slipping into recession at this time, the federal funds rate might not climb to the 4.375 percent we envision at the cyclical peak, but we still suspect that most Fed officials are uncomfortable with the current stance and wish to move "expeditiously" to a tighter position.

Review

Week of June 27, 2022	Actual	Consensus	Comments
Durable Goods Orders (May)	**0.7%**	**0.1%**	The advance in durable goods orders in May preserved the recent upward drift, although results have slowed considerably from gains in the prior year. Orders excluding transportation rose for the 24th time in the past 25 months (up 0.7%), but as with the headline figure, the pace of advance has eased from that earlier in the expansion. Orders for nondefense capital goods excluding aircraft, which provide insight into capital spending plans by businesses, rose for the 21st time in the past 25 months. However, the advance of 0.5% most likely translated to a dip in real terms. Shipments of nondefense capital goods ex. aircraft rose 0.8%, but the increase was likely miniscule after adjusting for inflation.
U.S. International Trade in Goods (May)	**-$104.3 Billion ($2.4 Billion Narrower Deficit)**	**-$104.8 Billion ($1.9 Billion Narrower Deficit)**	Exports of goods increased 1.2% in May while imports slipped 0.1%. The advance in exports followed strong gains in the prior three months, with the cumulative increase of 13.2% representing an acceleration in the upward trend from the irregular advance in 2021. Back-to-back declines in imports (0.1% in May and 4.4% in April) offset only a portion of a surge in March. The data in hand suggest a positive contribution from net exports to GDP growth in Q2 of around 2.0 percentage points, but the boost will follow a drag of 3.2 percentage points in Q1. International trade will most likely represent a notable soft spot for the first half of the year.
Consumer Confidence (June)	**98.7 (-4.4%)**	**100.0 (-6.0%)**	The drop in consumer confidence in June came on the heels of a 5.0% decline in May, leaving the measure at its lowest level since the early portion of the expansion. While the low level of confidence earlier in the expansion reflected lingering fears about Covid-19, sour attitudes more recently seem to be the result of rapid inflation. The year-ahead measure of inflation expectations included with the survey rose 0.5 percentage point in June to 8.0% -- the highest reading in the history of the series. While moods were depressed in a broad sense, views on the labor market remained positive. The labor market differential of 39.7% (share of survey respondents reporting that jobs are plentiful less the share indicating jobs are hard-to-get) was below the record differential of 47.1% in March, but it was still quite high relative to historical standards.
Revised GDP (22-Q1)	**-1.6% (-0.1 Pct. Pt. Revision)**	**-1.5% (Unrevised)**	While the final estimate of GDP growth was close to the preliminary tally, various components posted notable changes. On the soft side, consumer spending was lighter than previously believed, now showing growth of 1.8% versus a preliminary estimate of 3.1%. The inventory situation shifted in the opposite direction, with firms adding more to stocks than previously believed. The contribution to growth was still negative, but the drag was noticeably lighter than previously believed (-0.35 percentage point versus -1.09 percentage points). Business fixed investment provided a mildly positive surprise, showing growth of 10.0% rather than 9.2%.

Review Continued

Week of June 27, 2022	Actual	Consensus	Comments
Personal Income, Consumption, Core PCE Price Index (May)	**0.5%, 0.2%, 0.3%**	**0.5%, 0.4%, 0.4%**	Gains in nominal personal income and consumption in May appeared respectable, but they were erased after adjusting for inflation (off 0.1% and 0.4%, respectively). The decline in real consumer spending in May suggests that the aggregate Q2 performance will be soft -- growth of less than 1% as measured in the GDP accounts. On the inflation front, prices of food and energy continued to misbehave in May, increasing 1.2% and 4.1%, respectively. The core component, in contrast, showed considerably less pressure, increasing 0.3% for the fourth consecutive month. Recent changes are still not consistent with the Fed's target of 2.0%, but the latest shifts represent notable improvement from the average of 0.5% in the four months prior to February and readings as high as 0.6% in the spring of last year.
ISM Manufacturing Index (June)	**53.0 (-3.1 Index Pts.)**	**54.5 (-1.6 Index Pts.)**	The June reading on the ISM manufacturing index signaled continued growth in the manufacturing sectors of the economy, but it is off sharply from the peak of 63.7 in March of last year and it suggests a distinct loss of momentum. Production rose 0.7 index point in June to 54.9, although the level of the index was well below last year's average of 61.0. Other key components declined. New orders dropped 5.9 index points to 49.2, the lowest reading since Covid-related stoppages in the first half of 2020, and the employment index fell for the third consecutive month (-2.3 index points to 47.3, a reading signaling a contraction in hiring). The supplier deliveries index made the largest negative contribution to the headline measure (-8.4 index points to 57.3), although we view this development favorably. The latest reading, while a drag on the headline, suggests continued healing in supply chains. The prices index eased for the third consecutive month (-3.7 index points), but the level of 78.5 remained in the upper end of the historical range.
Construction Spending (May)	**-0.1%**	**-0.5%**	Private residential construction rose slightly in April (up 0.2%), led by improvements to existing homes. Construction of new homes posted a fractional increase (less than 0.1%), ending a string of six consecutive advances that averaged 1.5%. Private nonresidential building fell 0.4%, marking the third consecutive decline that has left essentially no net change in the past six months. Public construction fell 0.8%, which marked the second consecutive decline and offset most of the advances in the prior three months. All of these changes are based on nominal values. Inflation adjustments would leave noticeable declines in real terms.

Sources: U.S. Census Bureau (Durable Goods Orders, U.S. International Trade in Goods, Construction Spending); The Conference Board (Consumer Confidence); Bureau of Economic Analysis (Revised GDP, Personal Income, Consumption, Prices); Institute for Supply Management (ISM Manufacturing Index); Consensus forecasts are from Bloomberg

Preview

Week of July 4, 2022	Projected	Comments
Factory Orders (May) (Tuesday)	**1.1%**	An expected increase of 1.5% in orders for nondurable goods would supplement the already published advance of 0.7% in bookings for durable goods. The expected increase in the nondurable sector is heavily influenced by higher prices of petroleum products. Higher prices have most likely played a role in other areas as well.
ISM Services Index (June) (Wednesday)	**54.0 (-1.9 Index Pts.)**	The services index published by the Institute for Supply Management has cooled considerably from the average of 65.8 in the fourth quarter of last year. With the Fed tightening monetary policy and many commentators talking of recession, the measure probably eroded further in June.
Trade Balance (May) (Thursday)	**-$84.5 Billion ($2.6 Billion Narrower Deficit)**	The already reported improvement of $2.4 billion in the goods trade deficit will probably dominate the report on total trade. The surplus in service trade has been erratic from month-to-month in the past year, but it has improved on balance and could make a small positive contribution in May.
Payroll Employment (June) (Friday)	**300,000**	Talk of tight monetary policy and possible recession has probably led many businesses to slow the pace of hiring. An uptick in unemployment claims in recent weeks, although modest, also suggests a shift in staffing decisions. Expected job growth is well shy of the average of 590,000 in the second half of last year, but it is probably strong enough to hold the unemployment rate steady at 3.6%.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

June / July 2022

Monday 27

DURABLE GOODS ORDERS

Mar	0.7%
Apr	0.4%
May	0.7%

PENDING HOME SALES

Mar	-1.6%
Apr	-4.0%
May	0.7%

Tuesday 28

U.S. INTERNATIONAL TRADE IN GOODS

Mar	-$125.7 billion
Apr	-$106.7 billion
May	-$104.3 billion

ADVANCE INVENTORIES

	Wholesale	Retail
Mar	2.7%	3.1%
Apr	2.3%	0.7%
May	2.0%	1.2%

FHFA HOME PRICE INDEX

Feb	1.9%
Mar	1.6%
Apr	1.6%

S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX

	SA	NSA
Feb	2.4%	2.4%
Mar	2.4%	3.1%
Apr	1.8%	2.3%

CONFERENCE BOARD CONSUMER CONFIDENCE

Apr	108.6
May	103.2
June	98.7

Wednesday 29

REVISED GDP

	GDP	Chained Price
21-Q4	6.9%	7.1%
22-Q1(p)	-1.5%	8.1%
22-Q1(r)	-1.6%	8.2%

Thursday 30

UNEMPLOYMENT CLAIMS

	Initial	Continuing (Millions)
June 04	0.232	1.310
June 11	0.231	1.331
June 18	0.233	1.328
June 25	0.231	N/A

PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX

	Inc.	Cons.	Core
Mar	0.6%	1.2%	0.3%
Apr	0.5%	0.6%	0.3%
May	0.5%	0.2%	0.3%

MNI CHICAGO BUSINESS BAROMETER INDEX

	Index	Prices
Apr	56.4	86.1
May	60.3	88.6
June	56.0	79.6

Friday 1

ISM INDEX

	Index	Prices
Apr	55.4	84.6
May	56.1	82.2
June	53.0	78.5

CONSTRUCTION SPEND.

Mar	0.9%
Apr	0.8%
May	-0.1%

VEHICLE SALES*

Apr	14.5 million
May	12.7 million
June	13.0 million

Monday 4

INDEPENDENCE DAY

Tuesday 5

FACTORY ORDERS (10:00)

Mar	1.8%
Apr	0.3%
May	**1.1%**

Wednesday 6

ISM SERVICES INDEX (10:00)

	Index	Prices
Apr	57.1	84.6
May	55.9	82.1
June	**54.0**	**80.0**

JOLTS DATA (10:00)

	Openings (000)	Quit Rate
Mar	11,855	2.9%
Apr	11,400	2.9%
May	--	--

FOMC MINUTES (2:00)

Thursday 7

ADP EMPLOYMENT REPORT (8:15)

	Private Payrolls
Apr	202,000
May	128,000
June	--

INITIAL CLAIMS (8:30)

TRADE BALANCE (8:30)

Mar	-$107.7 billion
Apr	-$87.1 billion
May	**-$84.5 billion**

Friday 8

EMPLOYMENT REPORT (8:30)

	Payrolls	Un. Rate
Apr	436,000	3.6%
May	390,000	3.6%
June	**300,000**	**3.6%**

WHOLESALE TRADE (10:00)

	Inventories	Sales
Mar	2.7%	1.8%
Apr	2.3%	0.7%
May	**2.0%**	**1.0%**

CONSUMER CREDIT (3:00)

Mar	$47.3 billion
Apr	$38.1 billion
May	--

Monday 11

Tuesday 12

NFIB SMALL BUSINESS OPTIMISM INDEX

Wednesday 13

CPI

FEDERAL BUDGET

BEIGE BOOK

Thursday 14

INITIAL CLAIMS

PPI

Friday 15

RETAIL SALES

EMPIRE MFG INDEX

IMPORT/EXPORT PRICES

IP & CAP-U

BUSINESS INVENTORIES

CONSUMER SENTIMENT

Monday 18

NAHB HOUSING MARKET INDEX

TIC DATA

Tuesday 19

HOUSING STARTS

Wednesday 20

EXISTING HOME SALES

Thursday 21

INITIAL CLAIMS

PHILY FED INDEX

LEADING INDICATORS

Friday 22

** The reading on vehicle sales for June 2022 is a preliminary result.*

Forecasts in Bold. (p) = preliminary (2nd estimate of GDP); (r) = revised (3rd estimate of GDP)

Daiwa Capital Markets

Treasury Financing

June / July 2022

Monday	Tuesday	Wednesday	Thursday	Friday
27	28	29	30	1
AUCTION RESULTS: Rate / Cover 13-week bills 1.750% 2.84 26-week bills 2.500% 2.79 2-year notes 3.084% 2.51 5-year notes 3.271% 2.28	**AUCTION RESULTS:** Rate / Cover 7-year notes 3.280% 2.48 **ANNOUNCE:** $35 billion 4-week bills for auction on June 30 $30 billion 8-week bills for auction on June 30 $30 billion 17-week CMBs for auction on June 29 **SETTLE:** $35 billion 4-week bills $30 billion 8-week bills $30 billion 17-week CMBs	**AUCTION RESULTS:** RateCover 17-week CMB 2.185% 3.72	**AUCTION RESULTS:** Rate / Cover 4-week bills 1.240% 2.97 8-week bills 1.650% 2.89 **ANNOUNCE:** $87 billion 13-,26-week bills for auction on July 5 **SETTLE:** $87 billion 13-,26-week bills $14 billion 20-year bonds $18 billion 5-year TIPS $46 billion 2-year notes $47 billion 5-year notes $40 billion 7-year notes	
4	5	6	7	8
INDEPENDENCE DAY	**AUCTION:** $87 billion 13-,26-week bills **ANNOUNCE:** $35 billion* 4-week bills for auction on July 7 $30 billion* 8-week bills for auction on July 7 $30 billion* 17-week CMBs for auction on July 6 **SETTLE:** $35 billion 4-week bills $30 billion 8-week bills $30 billion 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs	**AUCTION:** $35 billion* 4-week bills $30 billion* 8-week bills **ANNOUNCE:** $87 billion* 13-,26-week bills for auction on July 11 $34 billion* 52-week bills for auction on July 12 $43 billion* 3-year notes for auction on July 11 $33 billion* 10-year notes for auction on July 12 $19 billion* 30-year bonds for auction on July 13 **SETTLE:** $87 billion 13-,26-week bills	
11	12	13	14	15
AUCTION: $87 billion* 13-,26-week bills $43 billion* 3-year notes	**AUCTION:** $34 billion* 52-week bills $33 billion* 10-year notes **ANNOUNCE:** $35 billion* 4-week bills for auction on July 14 $30 billion* 8-week bills for auction on July 14 $30 billion* 17-week CMBs for auction on July 13 **SETTLE:** $35 billion* 4-week bills $30 billion* 8-week bills $30 billion* 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs $19 billion* 30-year bonds	**AUCTION:** $35 billion* 4-week bills $30 billion* 8-week bills **ANNOUNCE:** $87 billion* 13-,26-week bills for auction on July 18 $14 billion* 20-year bonds for auction on July 20 $17 billion* 10-year TIPS for auction on July 21 **SETTLE:** $87 billion* 13-,26-week bills $34 billion* 52-week bills	**SETTLE:** $43 billion* 3-year notes $33 billion* 10-year notes $19 billion* 30-year bonds
18	19	20	21	22
AUCTION: $87 billion* 13-,26-week bills	**ANNOUNCE:** $35 billion* 4-week bills for auction on July 21 $30 billion* 8-week bills for auction on July 21 $30 billion* 17-week CMBs for auction on July 20 **SETTLE:** $35 billion* 4-week bills $30 billion* 8-week bills $30 billion* 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs $14 billion* 20-year bonds	**AUCTION:** $35 billion* 4-week bills $30 billion* 8-week bills $17 billion* 10-year TIPS **ANNOUNCE:** $87 billion* 13-,26-week bills for auction on July 25 $24 billion* 2-year FRNs for auction on July 27 $45 billion* 2-year notes for auction on July 25 $46 billion* 5-year notes for auction on July 26 $38 billion* 7-year notes for auction on July 28 **SETTLE:** $87 billion* 13-,26-week bills	

*Estimate